

Message Text

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PAGE 01 NEW DE 09057 081446Z

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ACTION NEA-16

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NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 SWF-02 EUR-25

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 2549

C O N F I D E N T I A L NEW DELHI 9057

E.O. 11652: GDS

TAGS: EFIN, IN

SUBJ: INDIA ATTEMPTS TO FIGHT INFLATION THROUGH LIMITATION
OF WAGE INCREASES AND DIVIDEND PAYMENTS

REF: (A) NEW DELHI 7525 (B) NEW DELHI 8818

1. WE HAVE BEEN REPORTING (REFTELS) THAT THE GOVERNMENT OF INDIA WAS RATHER FRANTICALLY SEARCHING FOR SOME ANSWERS TO WHAT CAN ONLY BE DESCRIBED AS A GROWING DOMESTIC ECONOMIC CRISIS. THE FIRST FRUITS OF THIS SEARCH HAVE NOW BEEN ANNOUNCED. THE MEASURES, INVOLVE (1) COMPULSORY SAVING OF ALL BASIC WAGE INCREASES AND 50 PERCENT OFCOST-OF-LIVING WAGE INCREASES (DEARNESS ALLOWANCES) BY ABOUT 18 MILLION WORKERS AND (2) A LIMITATION OVER DIVIDEND PAYMENTS. THE TWO ARE OF HIGHLY UNEQUAL SIGNIFICANCE. PRELIMINARY GOI ESTIMATES ARE THAT THE COMBINED EFFECT OF THE DIVIDEND LIMITATION AND THE DEPOSIT OF COST-OF-LIVING INCREASES WILL BE TO WITHDRAW RS. 5 BILLION FROM MONEY IN CONSUMERS HANDS OR A LITTLE LESS THAN 5 PERCENT OF THE MONEY SUPPLY. OF THIS TOTAL, RS. 500 MILLION ARE TO COME FROM THE DIVIDENT CONTROL MEASURES AND RS. 4.5 BILLION FROM THE COMPULSORY SAVING OF COST-OF-LIVING ALLOWANCES. (THE GOI HAS NOT ESTIMATED THE
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PAGE 02 NEW DE 09057 081446Z

SAVINGS FROM THE DESPOSIT OF ORDINARY WAGE INCREASES.)

2. FROM WHERE WE SIT THE MEASURES WOULD SEEM TO BE--BY THEMSELVES, AT LEAST (AND THERE WILL PROBABLY BE MORE TO COME)--TOO LITTLE AND TOO LATE. THEY ALSO APPEAR POINTED AT THE WRONG TARGET. THEY PROMISE BY THEMSELVES TO HAVE LITTLE IMPACT ON THE ALARMING INFLATIONARY TREND, AND SUCH EFFECT AS THEY HAVE WILL BE AT THE EXPENSE OF INCREASING THE SUFFERING OF MANY OF INFLATION'S VICTIMS. THEY HAVE ALREADY DISTURBED ORGANIZED LABOR, ALTHOUGH THEIR ULTIMATE POLITICAL IMPACT IS NOT YET CLEAR. THEY HAVE CREATED TEMPORARY CHAOS ON FINANCIAL MARKETS.

3. SOME METHOD OF IMPOSING COMPULSORY SAVINGS ON AFFLUENT NON-WAGE EARNERS HAS BEEN PROMISED BUT NOT YET ANNOUNCED, PRESUMABLY BECAUSE THE METHOD IS HARD TO FIND. A GENERAL FREEZE ON PRICES AND WAGES HAS BEEN RULED OUT AS SELF-DEFEATING IN AN ECONOMY OF SCARCITY.

4. WE WILL REPORT THE DETAILS OF THE MEASURES BY AIRGRAM AND WILL FOLLOW UP ON THEIR POLITICAL AND ECONOMIC EFFECTS.
SCHNEIDER

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